

# **Micro-Economics**

## **Price Discrimination/ Oligopoly/ Price \$ Quantity Determination**

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# Price Discrimination



1. **Meaning:** Different Markets, Different Prices, Same Product,
2. **Types:**
  - a. Personal Price Discrimination
  - b. Geographical Price Discrimination
  - c. Use-wise Price Discrimination

# Degrees of PD



- **1<sup>st</sup> degree:** Zero Consumer Surplus
- **2<sup>nd</sup> degree:** Quantum based
- **3<sup>rd</sup> degree:** Segmented Markets

# When is PD Possible?

- There should not be perfect competition in the market.
- Resale of the product should not be possible
- Customer should not reach cheaper market from dearer market



# When is PD Profitable?

The Ped should be different in different markets at a given price

High price should be charged from the market with low Ped

Low price should be charged from the market with high Ped



# Characteristics of Oligopoly



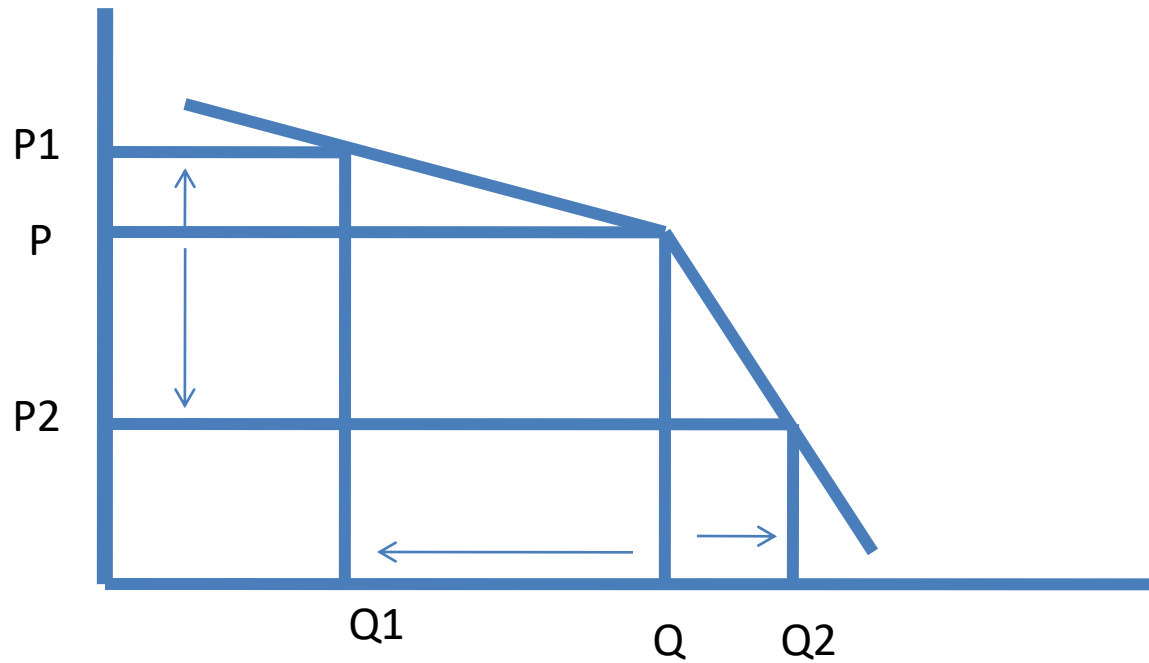
- 1. Few sellers (2 -10)
- 2. Homogeneous or differentiated product
- 3. Heavy interdependence
- 4. Very high selling cost
- 5. Possibility of group behavior
- 6. Indeterminate demand curve
- 7. Price Rigidity/ Sticky Prices

# Concept of Kinked demand curve



- 1. Given by American Economist, Paul Sweezy
- 2. This concept explains why the prices are rigid or sticky under oligopolistic market
- 3. Assumption of active response by the rivals during price cuts but not during price rise

# Kinked Demand Curve







1. Pure (perfect) and Differentiated (Imperfect)
2. Open and closed
3. Collusive and Competitive
4. Partial and full
5. Syndicated and Organized

# Equilibrium Price and Quantity



- 1. Meaning of Eqm Price: The price which is stable and does not change
- 2. Meaning of Eqm Quantity: The quantity which is stable and does not change

How are Eqm P and Eqm Q determined?



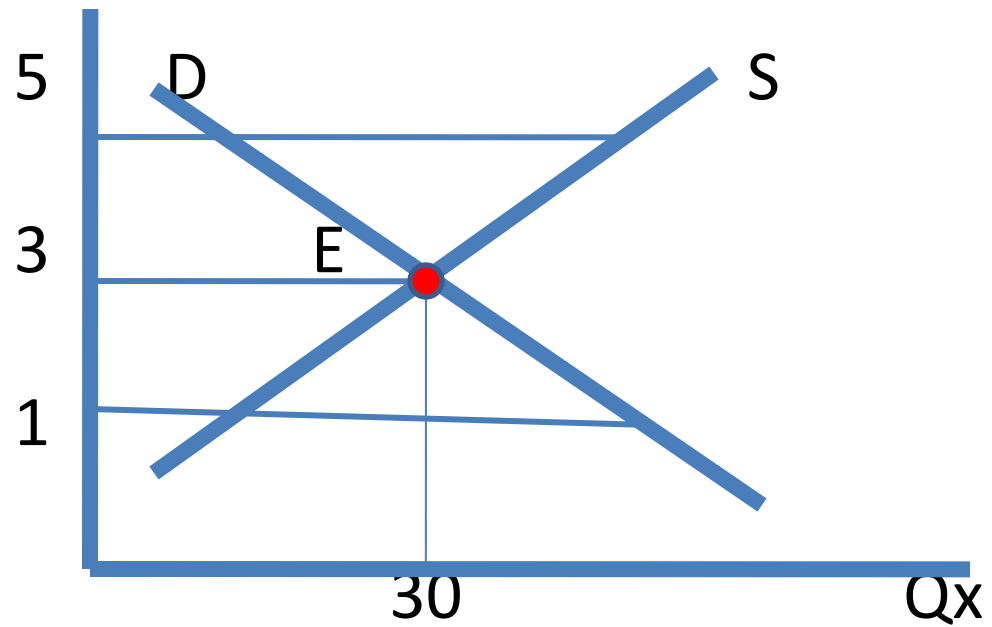
Eqm P & Q  $\longrightarrow$  D=S

Px	Dx		Sx
1	50	>	10
2	40	>	20
3	30	=	30
4	20	<	40
5	10	<	50

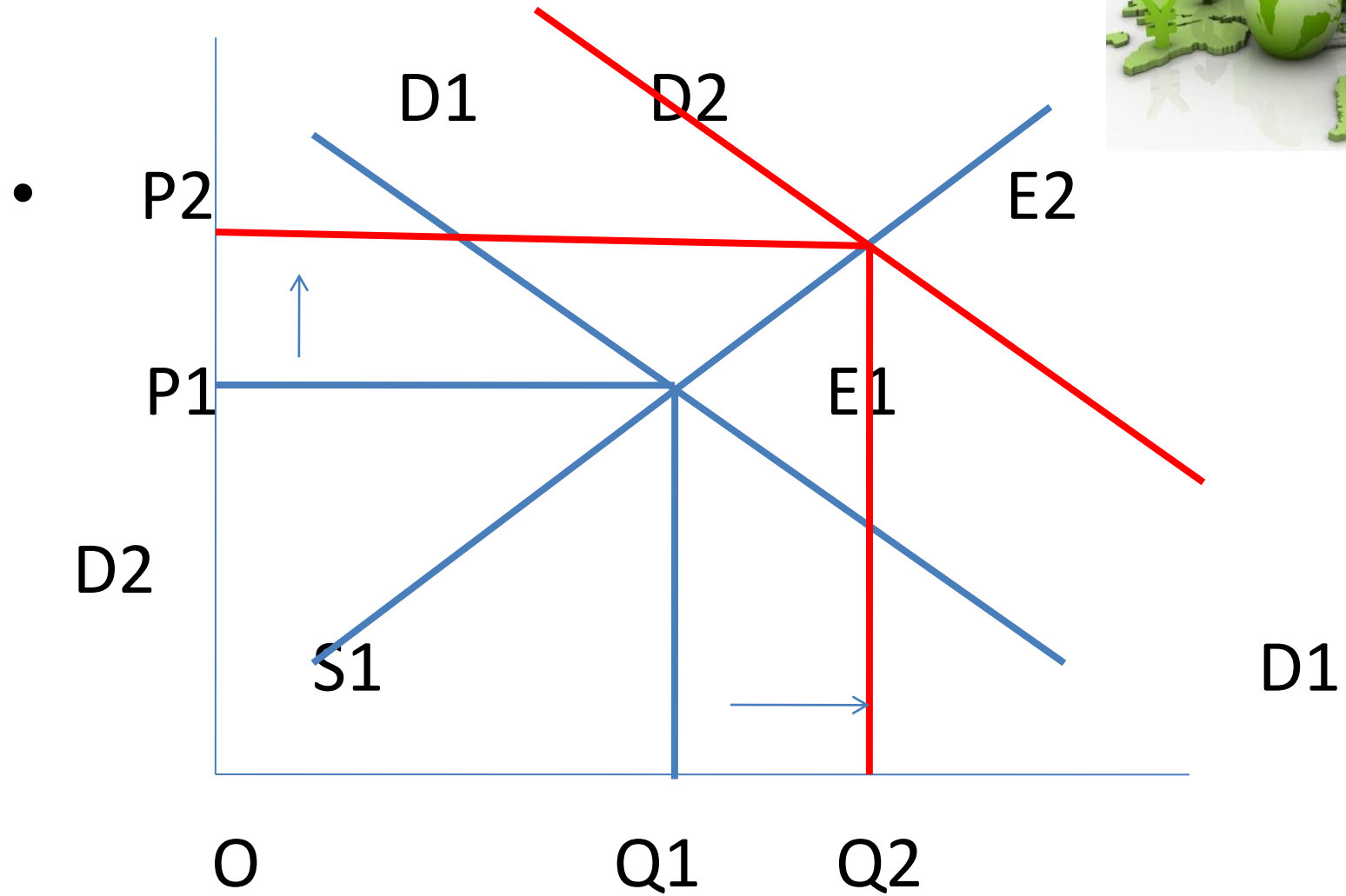
# Diagrammatic Presentation

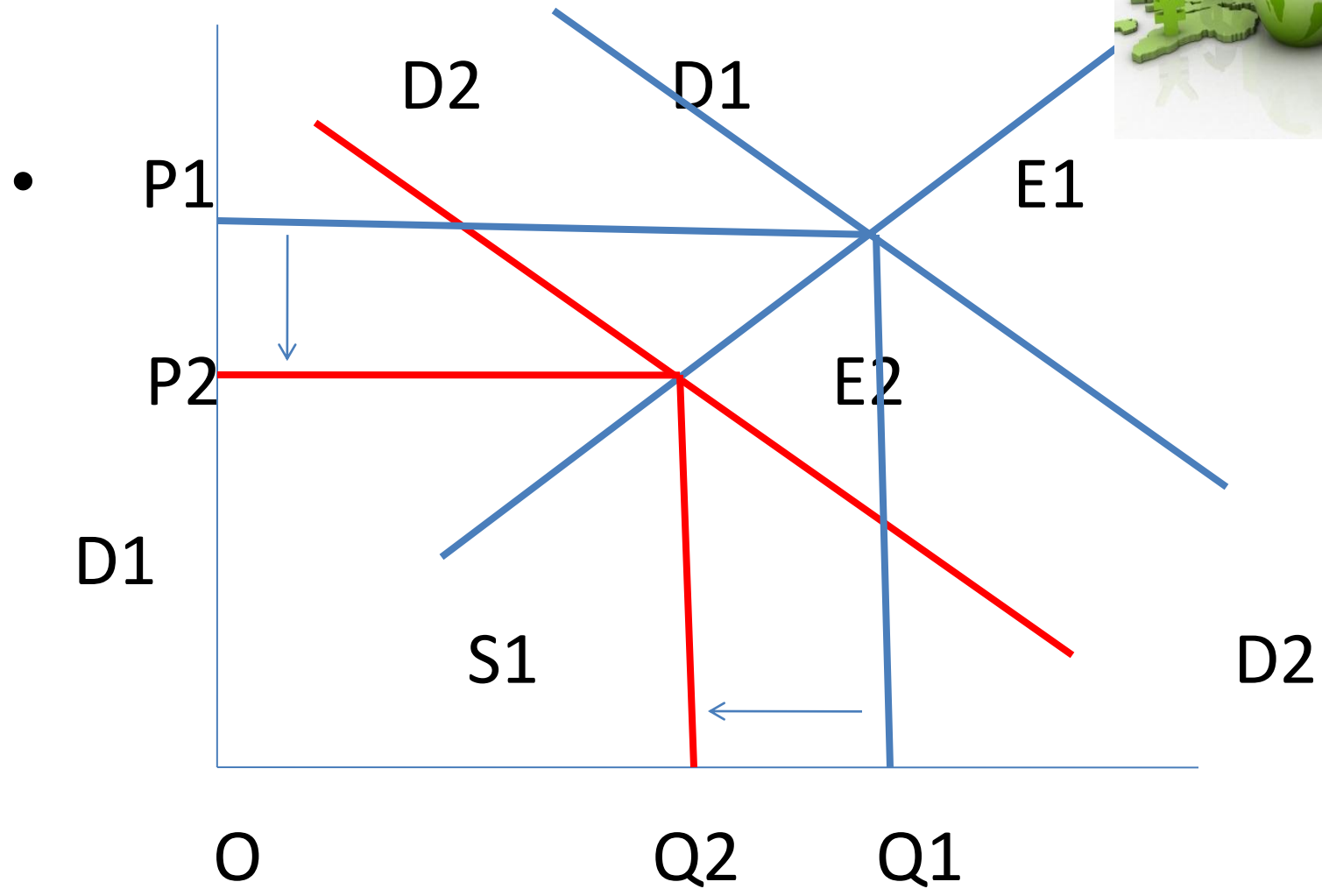


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# Effect of change in demand and supply on P \$ Q





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